CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Kitchener CMA

Date Released: Spring 2007

New Home Market

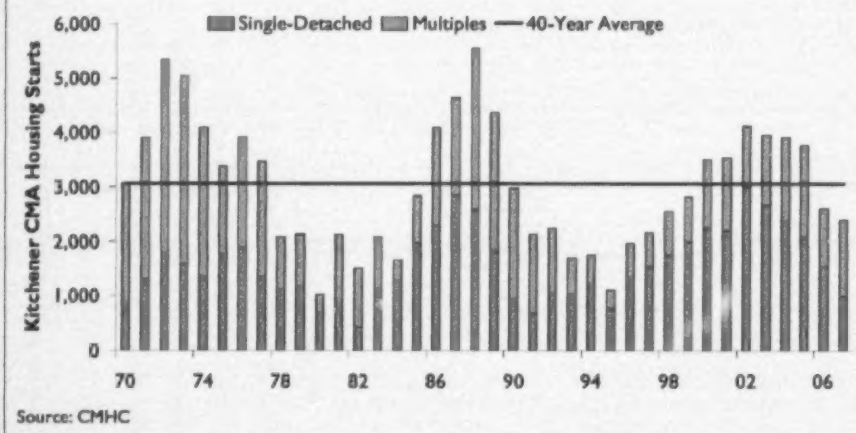
Shift to Multiple Home Construction

New home construction in the Kitchener Census Metropolitan Area (CMA) in 2006 fell to the lowest level since 1999. Rising new home prices, lower employment growth, and greater choice in the resale home market will combine to weaken demand for new homes further in 2007. Total home starts will reach 2,400, down eight per cent from last year. The focus will shift toward multiple-family types of housing which include semi-detached homes, townhouses and apartments.

Single-detached home starts will fall to their lowest level in twelve years. Construction will begin on a total of 1,000 single-detached homes in 2007, a drop of 35 per cent from 2006. The decrease in the construc-

Figure 1

Housing Starts Below Average



Source: CMHC

In this Issue

1 **New Home Market**
Shift to Multiple Home Construction

2 **Resale Home Market**
Resale to Remain Strong in 2007

3 **Economic Trends**
Slower Job Growth
Mortgage Rates Will Remain Low
Population Growth Strong

5 **Forecast Summary**

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tion of single-detached homes will be a function of gr~ ving home prices and the decline in serviced residential lots.

Consider first the impact of prices. As a result of higher construction costs and homebuyer demand for upgrades and expensive finishings, the average price of a newly constructed single-detached house in the Kitchener CMA has risen by more than 20 per cent in the last two years. Price increases for single-detached homes have outpaced income gains. Declining affordability has cut into demand for single-detached homes. With prices forecast to increase above the general rate of inflation in 2007, affordability will continue to be a factor for many potential buyers. As mortgage carrying costs increase, home buyers will turn to resale homes and more affordable types of new construction, especially townhouses and apartments.

The other factor impacting the construction of single-detached homes this year is the decline in serviced residential building lots. Both Cambridge and Waterloo currently have temporary land supply issues. In Cambridge, unbuilt lots for single-detached homes in registered and draft approved plans have fallen to just over a year's supply at the five-year starts average.

A significant increase in apartment construction, both rental and ownership, will boost multiple home starts in 2007. Construction will begin on 1,400 semi-detached houses, townhouses and apartments in 2007, an increase of 32 per cent from last year. Many homebuyers will turn toward more affordable home types at the expense of single-detached homes. The push to urban intensification as a result of the Ontario Places to Grow Act and Waterloo Official Plan will also support townhouse and apartment construction moving forward.

Resale Home Market

Resale to Remain Strong in 2007

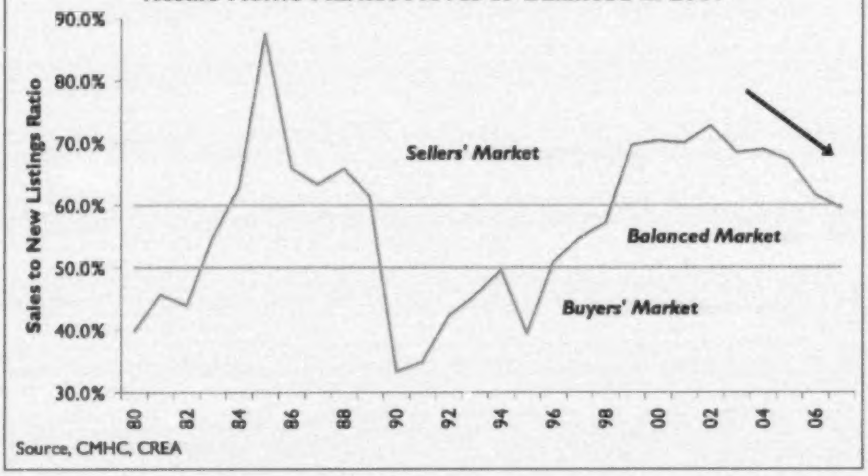
The strong resale home market in Kitchener-Waterloo will continue in 2007. Sales through the Kitchener-Waterloo Real Estate Board will plateau at a very high level, reaching 6,100 sales, down just 0.2 per cent from the 6,115 sales recorded in 2006. Conducive borrowing conditions, in-migration, and lower prices compared to new homes will support demand for resale homes.

The supply of new listings has been moving higher since 2000. Homeowners will continue to put their homes up for sale in a strong housing market environment which has seen house prices rise more than 40 per cent in the last five years. New listings, a measure of supply, will remain high. A total of 10,500 homes will be listed for sale in 2007, up six per cent from the 2006 level. More choice will help potential homebuyers meet their needs.

Market tightness is measured by the sales to new listings ratio (SNLR)[1]. The SNLR has been trending lower after peaking in 2002. With supply only slightly outpacing demand in

Figure 2

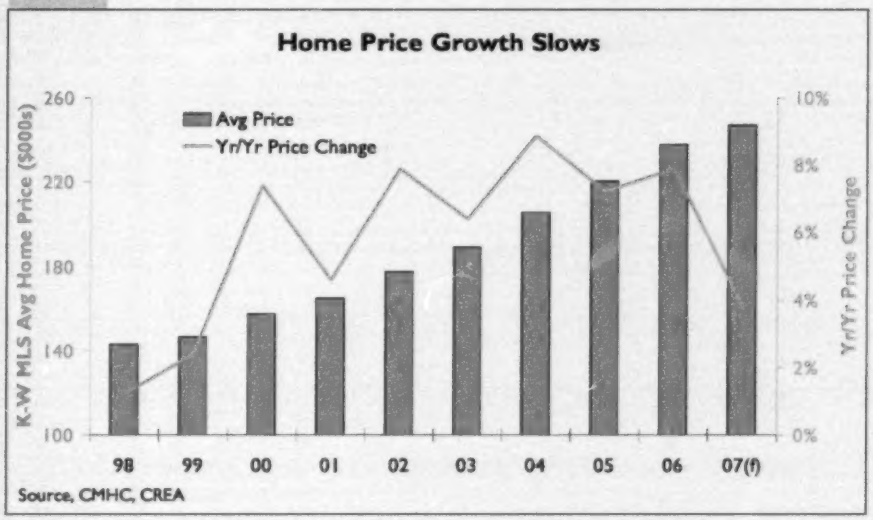
Resale Home Market Moves to Balanced in 2007



Source, CMHC, CREA

[1] In Kitchener-Waterloo, a ratio between 50 and 60 per cent indicates a balanced market. Prices in a balanced market tend to rise at a rate similar to inflation.

Figure 3



2007, the Kitchener-Waterloo SNLR is expected to remain relatively stable and the market will continue to favour sellers.

As a result of the easing of market conditions, price growth will be more subdued, but continue to outpace the general rate of inflation. The average price of a resale home is expected to reach $247,000 in 2007, an increase of 3.8 per cent from the 2006 level.

Economic Trends

Slower Job Growth

Employment is a key factor supporting housing demand. Although Kitchener's job growth has slowed, employment remains at a high level. After increasing by more than 5.3 per cent in 2005, employment increased by only 0.6 per cent in 2006. Total employment in 2007 is forecast to increase by one per cent.

While employment in the services sector continues to add jobs, the goods-producing sector has been hard hit by lower export sales. Weaker U.S. economic growth and the high Canadian dollar have negatively impacted export sales. Manufacturing jobs have been lost due to several plant closings. Also, the construction sector has shed more than 5,000 jobs in the last year. On the other hand, the services sector has added over 6,000 jobs in the last year, led by employment increases in the health-care sector.

Full-time employment is most important to housing demand. This sector has seen a decline in employment in the last year. More than 4,000 full-time jobs were lost to the local economy between March 2006 and March 2007. Stagnant growth in employment in the important 25-44 homebuyer age group has also impacted housing demand negatively.

Mortgage Rates Will Remain Low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will

Figure 4

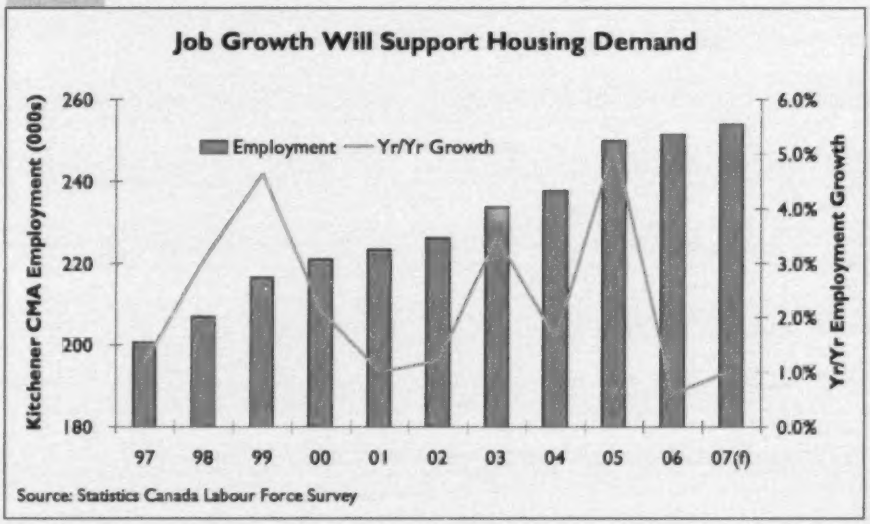


Figure 5

Source: Bank of Canada

help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Population Growth Strong

Census data just released by Statistics Canada has shown that population growth in the Kitchener CMA is one of the highest in Ontario. Between 2001 and 2006, the population in Kitchener grew by 8.9 per cent, reaching 451,235 in June 2006. In comparison, population growth in Ontario was 6.6 per cent. Migration was the driver behind this growth.

Intercensal data indicates that the rate of population growth has slowed over the past couple of years. International and intra-provincial net migration will have the largest impact on the Kitchener population moving forward. Net migration will reach a level of 3,000 persons in 2007.

Forecast Summary Kitchener CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	5,931	6,147	6,115	6,100	-0.2	6,000	-1.6
MLS® New Listings	8,601	9,127	9,896	10,500	6.1	11,000	4.8
MLS® Average Price ($)	205,639	220,511	237,913	247,000	3.8	254,000	2.8
New Home Market							
Starts:							
Single-Detached	2,374	2,082	1,542	1,000	-35.1	1,100	10.0
Multiples	1,538	1,681	1,057	1,400	32.5	1,400	0.0
Semi-Detached	194	116	210	150	-28.6	150	0.0
Row/Townhouse	669	918	545	500	-8.3	550	10.0
Apartments	675	647	302	750	148.3	700	-6.7
Starts - Total	3,912	3,763	2,599	2,400	-7.7	2,500	4.2
Average Price ($):							
Single-Detached	256,115	287,623	313,149	338,000	7.9	352,000	4.1
New Housing Price Index (% chg.)	4.5	5.0	4.1	2.5	-	2.0	-
Rental Market							
October Vacancy Rate (%)	3.5	3.3	3.3	3.0	-0.3	2.9	-0.1
Two-bedroom Average Rent (October) ($)	765	811	824	840	1.9	857	2.0
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	237,300	249,900	251,400	254,000	1.0	258,000	1.6
Employment Growth (%)	1.5	5.3	0.6	1.0	-	1.6	-
Unemployment rate (%)	5.1	5.7	5.2	5.2	-	5.1	-
Net Migration	4,699	3,556	3,372	3,000	-11.0	3,000	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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